Audit's NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

May 9, 1975 VOL. VI, No. 9

VALUE GUIDE TO TRUSTS REVIEWED THIS ISSUE

Trust	Rel. Appeal	Port. Yield	-12Mo.Port.Chng.- Last	E.Next	Lever. Ratio	Price	Ann. Yield*	Div. Reinv.	Page
Fidelco Growth	4	11.49%	13%	-14%	2.56	$ 9.25	17.3%	No	8
MassMutual Mtg.	3	9.01	-11	- 5	0.51	10.00	11.2	Yes	5
MONY Mtg. Inv.	2	10.99	0	0	1.81	6.50	10.5	Yes	6
Northwestern Mut.	3	9.83	13	7-9	1.80	9.25	8.6	Yes	7
AVERAGE		10.33%	4%	- 3%	1.67		11.9		

*Based on annualized latest qtr.

LOAN SWAPS MAY GO A LONG WAY TO RELIEVE PRESSURE ON REITS AND THEIR SHAREHOLDERS

With minimal fanfare and maximum experimentation, loan swaps are evolving as a new way to relieve liquidity pressure on mortgage lending REITs, simplify REIT revolving credits, and still leave something for the beleaguered shareholder. Deals in final documentation amount to only about $72 million but many times that amount are in talking stages. By themselves asset swaps won't completely solve the $6.6 billion of REIT problem loans we found in our latest survey (RTR, Apr. 25) but they are taking enough of the heat off to merit a closer look.

In the typical asset swap, a REIT exchanges (or sells) loans from its portfolio to its lending banks in return for cancellation of that bank's loans to the REIT. The REIT generally tries to get some cash in the bargain to improve its liquidity while the bank upgrades its position from an unsecured lender to the REIT to that of secured mortgage lender on a specific real estate project. The shareholder also benefits because interest rate charges on REIT revolvers are reduced. On the surface it looks like everybody wins and nobody loses in such deals. But while the theory is sound, the complexities of swaps are such that final benefits depend heavily upon the skill with which they are carried out.

Swap deals were initially seized upon as a way of letting recalcitrant banks get out of revolving credits or open lines to troubled REITs. The revolving credits developed as mass shotgun weddings as all the bank lenders to a troubled REIT sought refuge in a formal credit document which bound all banks to a single set of terms. This limited flexibility and control for individual banks, especially ones with relatively small dollars committed to an individual trust. And the presence of many small banks in a line, often running up to 100 banks, turned administration and modification of these lines into paper jungle for bankers. Getting these small banks

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paid off and happy posed equally difficult problems, because large bank creditors typically resist paying off the small banks ahead of other participants.

Asset swaps are turning out to be the way out for small and some not-so-small banks. And while no one has proposed their widespread use, asset swaps could end up paving the way for defusing the REIT problem loan buildup by dispersing many non-earning loans into the much larger banking system, where they likely could be handled easily. The largest and to some extent the most innovative have been done already by Great American Investors, Republic Mortgage Investors and Builders Investment Group. Others are being discussed or in planning by such giants as First Mortgage Investors, Chase Manhattan Trust, and others. In the typical deals so far, REITs have swapped assets at par and accrued interest for a combination of cash and reduction of bank debt to the REIT. The combinations so far, in millions of dollars:

	Loans reduced	Cash to trust	Total	Ratio: Total to loans reduc.
Builders Inv. Group #.......	$28.8	$19.2	$48.0	1.7
Great Amer. Inv.............	8.1	E8.0	E16.1	E2.0
Republic Mtg. Inv...........	2.0	5.4	7.4	3.7
TOTALS....................	$38.9	$E32.6	$E71.5	E1.8

#Includes $33.5 million in negotiation. E-Estimate by RTR.

The REIT shareholder naturally wonders how he comes off in such deals because they could let banks skim off the cream of good REIT loans and leave the bad loans for the REIT. Not so. The essential element of these swap deals is that the very lowest-quality, non-earning loans are being traded off for an equal dollar value of bank lines cancelled. For instance, a bank lender of $1 million to a REIT would have to swap a $1 million non-earning asset to cancel its line. If it wanted high quality earning asset, it would have to take a considerably higher ratio of REIT loans (again valued at principal plus accrued interest) and pay the difference in cash.

All manner of systems for determining this ratio have sprung up and it is here that experimentation is highest. The most sophisticated system we've seen to date was used by Republic Mortgage Investors in conducting an actual auction last week of its investments to its bank lenders. Before the auction Republic ranked each loan in its portfolio from 1 (lowest) to 4 (highest). The rating essentially establishes a ratio to bank lines at which the trust would swap the asset. For instance, $1 of bank lines could be cancelled for each $1 of lowest quality loans. But $1 of bank lines could also be cancelled for $4 principal amount of the very highest quality investments (a 4-to-1 ratio), with the bank paying the remaining $3 in cash.

Republic used six different factors in the rating, including: minimum and maximum risk, current income, repayment probability, legal status, funding required. (Our sister service for real estate professionals, REAL ESTATE DISCLOSURE DIGEST, will publish more complete details). Two different sections of Republic's adviser rated each loan independently and results were blended to insure balance. After ratings were posted, Republic told its banks they could examine any files they wanted, inspect properties and make any other investigations. On the auction date last week, each bank submitted sealed bids (they could be firm, conditional, alternate, etc.) of the multiple at which they would swap the loans.

The average multiple of 3.7 (see table) shows that banks initially were going after the highest quality investments and in fact, 11 of the 12 are accruing income. (One side result: RMI's non-earning percentage will climb to about 69% when deals are closed). But the trust got $5.7 million of new cash and didn't lose a dollar of principal. It is scheduling two additional auctions and indications are that more non-earning investments will go then.

Nearly all other trusts have used a similar multiple concept but there apparently has been much more negotiation over individual properties involved. Republic's rating system reduced this negotiation to a single sealed bid concept. In some deals geographic location of investments plays a factor, with some banks seeking to swap for properties located close home. For instance, the first $14½ million installment of loans swapped by Builders Investment Group to three banks were nearly all located in Indiana and Illinois. The banks doing the swapping were Continental Illinois National Bank and Harris Trust Co., both of Chicago, and New England Merchants National in Boston, which will apparently rely upon Harris for loan servicing. When BIG completes its current $50 million swap program, all three banks will be out of the line.

Other trusts have used similar asset transfers to solve temporary liquidity problems, mostly through sale of loan participations. In a participation, the participating lender shares equally in all terms and conditions of a mortgage loan but generally relies upon the lead lender for monitoring the loan. Several large participations have been completed: last July Continental Illinois Realty sold participations of $61.2 million in trust loans to its affiliated bank, Continental Illinois National, to ease a squeeze when a $55 million Eurodollar loan was not renewed. HNC Mortgage & Realty sold whole loans or participations totaling $25.2 million, including $15.7 million to the adviser's parent. Buyers assumed obligation to fund $8 million unfunded amounts.

And last month NJB Prime Investors sold a pool of $10.45 million loans at principal amount to its lending banks as a group, receiving $6.86 million in cash and retaining a subordinated participation in the balance. The deal was done to keep NJB from requiring additional borrowings which would have exceeded its limits on debt. The banks and trust share in interest collections, and the banks receive all principal collections until their principal is recovered.

All these arrangements pose difficult legal questions: are the REITs liable to lose REIT status if they are ruled to be holding property for sale? Do they constitute a preferential transfer of assets?

The key question is how shareholders fare under such plans. So far we see nothing but good from the swaps. Debt and interest cost are cut, hastening the day when some mortgage REITs may return to profitability. If used on a widespread basis, they could even accelerate the working down of the industry's problem loans. And since all deals have been done at par without loss of principal, remaining loss reserves automatically become a larger percentage of the smaller portfolio. This ultimately strengthens individual trusts.

Asset swaps should be evaluated in context of total bank lending to REITs. Bank managers now say that four forthcoming modifications--for Chase Manhattan Trust, Continental Illinois Realty, Wachovia Realty, and Cousins Mtg.--will set the pace for others. The agreements are expected to avoid cutting interest rates while finding ways to maintain trust equity. At present bankers are not detailing how this will be done. Two recent modification, for Great American Investors and Builders Investment Group, have moved a step in this direction by providing that reductions in shareholders' equity resulting from a pending accounting change--to require REITs to set up reserves now for future holding costs of acquired property--will not be figured in calculating various leverage restrictions. REIT opposition to the holding cost proposal is building, because every $1 of equity reduction via higher reserves cuts potential borrowings by $5 or more. And if the controversial rule is adopted, REITs want the proposed rules applied to banks as well. All this means that it will be awhile before current unsettlement is resolved.

SUBSCRIBERS ASK: BUYING REITS ON MARGIN? TAX SHELTERED DIVIDENDS? SECURITY MORTGAGE?

Q. I am age 60 and will retire in 1½-4½ years, with retirement income of $29,000 to $37,000 depending upon retirement age. I originally became interested in REIT warrants to buy beneficial shares when I retire and to date bought 12,000 shares (warrants) of First Pennsylvania, Cousins, PNB, First of Denver & Hamilton. Obviously all have terrible losses but I still have faith in REITs and wish to invest more conservatively--long-term mortgage or equity. But I know practically nothing about equity trusts and I find tax shelter information practically impossible to find. I like *Northwestern Mutual Life Mtg.* providing good yield and a chance to double price. If bought on margin (think I can afford risk) return would pay margin interest. Could you possibly set me on a proper course?

A. As noted in recent issues of RTR and particularly in our Relative Appeal Rankings, we believe this is a time to be only in quality equity and/or long-term mortgage REITs. Any short-term mortgage REIT simply is not worth the risk for your situation. NML is reviewed this issue. At current yields of about 9.0% there doesn't seem to be enough spread for margin buying, however. In recent issues we've discussed some equity trusts and you should look at premier equity trusts like General Growth Properties and Washington REIT.

Your difficulty on tax shelter information is caused by the fact that very few REITs provide any significant tax shelter to their shareholders and then only in the form of return of capital (tax exempt) or capital gains (taxable at capital gains rates). There is no possibility of using tax losses to offset other income as can be done by a partnership. Another confusing factor is that the amount of tax-free income is determined by a REIT only after its year-end audit is completed. Thus we can only say for many trusts (as for General Growth) that only approx. 50% of the dividend may be tax free but the exact percentage can only be known after year-end. General Growth is unique because most of its tax shelter comes from its large construction program and attendant construction spending deductions. Only a few other REITs have tax-free portions in the 10%-20% of dividend range. Thus we simply do not stress tax shelter as a factor in REIT dividends.

Q. I own *C.I. Realty* and *Beneficial Standard Mtg.*, neither of which is mentioned in your current review. They are in sad shape and I am still holding them in hope and wondering if the hope is any good. I do not understand why large part of the industry is in bad shape.

A. Our Relative Appeal Rankings are designed to give you our advice on every major trust every month. <u>Please follow it carefully</u>. I judge from your letter you have not read them. They are designed to package an enormous amount of information into a short space and are developed through intensive staff effort. Both your issues are ranked No. 5, not recommended, and while no major problems have surfaced on either, recovery looks lengthy. C.I. Realty first proposed, then withdrew a plan to convert to an operating company. It also announced recently that some investors expressed interest in buying shares but nothing further has developed. The bulk of holdings are in apartments and NYC office buildings, but serious problems have arisen in a small mortgage portfolio. Beneficial Standard Mtg. recently revealed some problems have arisen in loans to some present or formerly affiliated entities.

Q. I have 400 shares of *Security Mortgage Inv.* bought at 14 for income (and safety); it is now down to 1-1/8 and I have a terrible loss. I would like to subscribe if you include SMI.

A. We have assigned a No. 5 (lowest) ranking to Security because of serious problems with a servicer of $43 million of its mortgages (about 20% of its total). The servicer, North American Acceptance Corp., filed Chapter X bankruptcy and the trustee in bankruptcy has challenged Security's ownership of $43 million of installment home improvement loans it had originated. Additionally the NAA trustee has contested ownership of $6 million of land sales contracts and the trust had a small investment in projects of Walter Kassuba, an apartment developer in Ch. XI. All this has brought severe liquidity problems to Security and the prospect for extended litigation does not augur well for near-term relief.

Q. I should like to obtain a list of short-term mortgage trusts that are now or soon will be under revolving credit agreements and which may be subject to a drop in share price. One can invest on the short side as well as the long.

A. We listed all REITs under revolvers in RTR Feb. 10, p.3 for those signed and p.5 for those in negotiation. Since then Atico Mtg., Capital Mtg., First of Denver Mtg. and U.S. Realty have signed or begun negotiations. Shares of virtually all these trusts trade below $5 and we caution that short selling at such depressed levels leaves almost no margin for error and with commissions you may be unable to come out whole. And if a bankruptcy or trading suspension comes along, you could be unable to cover your short. Not advised.

Q. What are your current views on *Colwell Mortgage*, *B.F. Saul REIT* and United National?

A. United National Corp. is an operating real estate company, even though it has absorbed two REITs during its history. It is thus not included in RTR.

Colwell Mortgage has suffered from persistent increases in its non-earning investments last reported at 43% (about the average for short-term mortgage trusts). As a result the dividend has been omitted and a revolving credit agreement is being negotiated. While management of the sponsoring mortgage banker has long experience in real estate, recovery from problem loans may take several years in line with our industry view. The No. 5 ranked shares are not currently recommended for serious investors and there seems little basis for speculative enthusiasm.

B.F. Saul REIT is an older property REIT which branched into mortgage lending in 1969-70 and developed a short-term portfolio both near its Washington, D.C. base and in other leading cities. Mortgage loans have largely been made on standard urban properties, mainly shopping centers and apartments. Loans are minimal on two of the industry's most troubled property types, condominiums and land development projects. Problem loans at 29% of investments are relatively high and high leverage around 3½-to-1 has resulted in earnings declines and no dividends are expected for several quarters. However the strong real estate equity orientation of the staff gives the trust a very big leg up in working out of problem properties such as were encountered recently in Louisville, Denver, Houston and Tulsa. Some may be held as permanent investments. Shares are also starred in our Relative Appeal Rankings indicating book value is believed to be reasonably sound and hence may be held by very long term investors.

MASSMUTUAL MORTGAGE AND REALTY INVESTORS (10--NYSE-MML) FY Oct. 31

Quar.	Port.	Port.Yld.	Non-earn.Inv.	EPS Prim.	Div.	-Price range-	-Yld.range-
4/74	$276.7M	9.82%	0.9%	$ 0.43	$0.43	$18.13-14.38	12.0- 9.5%
7/74	274.2	10.82	2.5	0.40	0.36	16.88- 9.75	14.8- 8.5
10/74	268.5	10.63	5.6	0.30*	0.30	11.50- 7.50	16.0-10.4
1/75	242.9	9.01	11.4	0.28	0.28	12.50- 7.25	15.4- 9.0

*Incl. $0.09 per sh. gain on purchase of debentures.

Portfolio dynamics: Investments declined 11% during the past year with the major drop being in short-term loans. A further decline of $12 million came in the Apr. qtr., again mainly in the short-term area. The portfolio will then remain stable until Oct. or Nov. when another drop is anticipated. The trust is not making new commitments presently but possibly small amounts may be committed during the summer in the short-term area, although trust managers view short-term loans as basically unattractive. The trust has $5 million in commitments on existing loans. Composition by loan type is 69% long-term, 12% construction, 6% land and land development, 5% junior (mostly short-term), 3% net lease financing (long-term), 3% notes receivable (two-thirds secured) and 1% other short-term. Investments are located in 36 states with 14% in Texas where the largest loan of $6.9 million is located. This loan is a first mortgage participation on a regional shopping center in Fort Worth. By type of project long-term loans are 43% shopping centers & commercial, 36% apartments and 7% each office buildings, industrial and hotel/motel. Short-term loans by project type are 28% land and land development, 25% apartments, 19% office building, 13% condominiums, 8% shopping centers & commercial, 5% hotel/motel and 2% industrial. About 14% of the entire portfolio floats with market rates. On Feb. 26, trust was not recognizing interest on twelve loans for $27.6 million or 11.4% of investments. Five of these loans were acquired through foreclosure. They include 10 acres of undeveloped land in Irving, Texas ($905T); a 26% interest in a 232-unit apartment in Houston, Texas ($1.0M) which is 29% occupied; 360-unit apartment in DeKalb County, Ga. ($1.7M) where occupancy is 80%; 204-unit apartment in Decatur, Ga. ($1.3M) with 63% occupancy; 362-unit apartment in Greenbelt, Md. with 26% occupancy. Management feels that all the apartment properties will work out once occupancy is built up. The other seven loans are delinquent and include: $1.5M construction loan on a 98% complete, 85-unit apartment in Carmel, Ind.; $869T construction loan on a completed 304-unit apartment in Indianapolis, Ind.; $793T construction loan on a 109 unit, 80% complete apartment in Lansing, N.Y.; $1.45M construction loan on a 33% complete condominium in Miami, Fla.; $3.1M construction loan on a 181-unit, 89% complete apartment in Hinds County, Miss.; $4.96M land development loan in San Antonio, Tex.; and three condo projects (two in Miami, one in Puerto Rico) taken over from TMC Mortgage Inv., a short-term trust, to which the trust had loaned $6.63 million.

Financing: MassMutual is funded 66% by capital and 34% by non-convertible debt. The $167.4M in capital is 54% equity with 4.7M shares and 46% in three convt. subor. deben. Debt of $85.1M is 47% in long-term notes payable; 32% in short-term bank loans and 21% commercial paper. The paper has a P-1 rating from Moody's. Bank lines total $110M. Sponsor: MassMutual Massachusetts Mutual Life Insurance Co., one of the 10 largest life cos. Results & outlook: Operating results actually increased in the Jan. qtr. since the $0.30 reported in Oct. included a $0.09 gain on purchase of the trust's 6-3/4% Eurodollar debentures. Management would like to move the trust more into equity purchases, perhaps by merger with another equity REIT, but with shares currently selling about 56% below book value, opportunities for raising capital for this purpose are limited and depend upon sharp price recovery. Time will be required to work out of problem investments but portfolio is basically sound with little risk to current problem areas. We are reducing shares to a No. 3 ranking because their return and earning power are only average at this point. Shares, however, have good recovery potential. (VCK)

MONY MORTGAGE INVESTORS ($6\frac{1}{2}$--NYSE-MYM) FY May 31

Quar.	Port.	Port.Yld.	Non-earn.Inv.	EPS Prim.	Div.	-Price range-	-Yld.range-
5/74	$262.0M	11.38%	0.9%	$ 0.19	$0.20	$7.88-5.88	13.6-19.2%
8/74	264.8	11.91	4.4	0.17	0.18	6.63-4.13	17.4-10.9
11/74	250.9	12.00	4.6	0.17	0.17	7.00-4.25	16.0- 9.7
2/75	253.5	10.99	8.1	0.17	0.17	7.50-4.75	14.3- 9.1

Portfolio dynamics: There was no portfolio growth the past twelve months and management expects no increase next year. MONY is making new commitments very modestly and commitments to be funded presently amount to $30 million. All present commitments are in the short-term area. The portfolio at Feb. was 42% long-term loans, 29% construction and short-term, 8% second mtg. (less than 5 years), 13% real estate owned, 7% land development and 1% real estate acquired through foreclosure. The acquired real estate is a completed apartment in Cary, N.C. which did not yield much in the Feb. qtr. However, the property is now yielding a good return due to improved occupancy and will be shifted to investment real estate status in the May qtr. By property type short-term investments were 29% apartments, 19% office buildings, 13% land, 12% each shopping centers and second mtg., 10% industrial, 3% hotels and 2% other. Long-term investments were 42% office buildings, 26% each apartments and shopping centers, 5% industrial and 1% land. Equity investments are three apartments (60%), 3 office buildings (34%) and a shopping center (6%). Short-term loans are in 22 states with some concentration in Fla. and Tex. while long-term loans are in 24 states with New Jersey the biggest. Equity investments are in five states. Some 78% of short-term investments float with market rates so that 34% of the entire portfolio floats. On Feb. 28, the trust had seven loans in non-accruals, $19.15 million. These loans plus acquired real estate of $1.28 million brought total non-earning assets to 8.1% of the portfolio. The trust stops accrual when the loan is 60 days delinquent or earlier if collection appears doubtful to management. Included in the seven loans are a 100-unit, completed apartment in Lafayette, La. which the trust hopes to acquire through foreclosure by May 31; a 180-unit completed apartment in Jeffersonville, Ind. for which title has just been obtained; 3,526 units of apartments in Raleigh, Durham, Chapel Hill, N.C. which are in bankruptcy court but which should produce some income; a mobile home park in Rocklin, Calif. which should become current in the near future; a 168-unit apartment in Knoxville, Tenn. which experienced cost overruns; a 648-unit apartment in Indianapolis, Ind. which is fully paid, and is no longer non-accruing; a condo warehouse in Miami, Fla. Management expects non-accruals to be reduced in the May qtr., last in the trust's fiscal year.

Financing: MONY is funded 36% capital and 64% by non-convertible debt. The $94.4 million in capital is 91% equity with 8.83M shares and 9% in 7% convertible subordinated debentures. Non-convertible debt of $171.2 million is 42% commercial paper, 30% short-term bank debt, 15% in a $7\frac{1}{2}$% term loan and 13% mtg. Of total funds, 47% float with market rates. MONY recently announced that its adviser, The Mutual Life Insurance Co. of N.Y., will endorse up to $43 million of its commercial paper. MONY's commercial paper is rated P-1 by Moody's and the trust is applying to S&P for a rating once it completes five years of operations this May 31. The trust reports that the endorsed paper is selling well. Paper is sold through Blyth, Eastman Dillon and A.G. Becker. MONY just reduced its total bank lines by $15 million to $135 million with 15 banks. Present funds are more than sufficient to meet commitments. Sponsor: The Mutual Life Insurance Co. of N.Y., one of the largest life and health insurers. Results & outlook: The significant reduction in interest expense enabled the trust to overcome lower gross revenues and higher loan loss provision and produce level Feb. qtr. earnings and dividends. Management states the outlook for May earnings is very good. The trust's small exposure to risk areas has enabled it to control non-earning assets. Management believes non-earning loans have peaked and a reduction is likely in the May qtr. Strong sponsor support is evidenced by the commercial paper guarantee. The trust's shares retain their No. 2 ranking and are candidates for longer term appreciation. (VCK)

NORTHWESTERN MUTUAL LIFE MORTGAGE AND REALTY INVESTORS (9¼--NYSE-NML) FY Mar. 31

Quar.	Port.	Port.Yld.	Non-earn.Inv.	EPS Prim.	Div.	-Price range-	-Yld.range-
6/74	$231.8M	10.82%	2.4%	$0.42	$0.42	$21.75-13.25	12.7- 7.7%
9/74	238.1	11.71	1.8	0.38	0.38	15.63-10.25	14.8- 9.7
12/74	243.4	10.55	4.5	0.31	0.31	14.00- 8.75	14.2- 8.9
3/75	252.3	9.83	9.6	0.18	0.20	12.38- 9.00	8.9- 6.5

Portfolio dynamics: During the past year the portfolio grew by 13% and management expects investments will peak out at $275 million by Dec. 1975 and fall slowly after that. This would produce a gain of 7-9% during the next year. No new commitments are being made but present commitments to be funded amount to $119 million. These break down $54 million short-term, $45 million long-term, $17 million standby and $3 million equity. The portfolio composition at year end March was 53% long-term, 26% construction, 12% land development, 6% real estate owned, 2% real estate acquired through foreclosure and 1% joint venture investments. Investments are located in 35 states with largest concentrations in Calif. (16%) and Fla. (15%) By project type, the entire portfolio makeup was 22% office buildings, 21% shopping centers, 15% apartments, 12% land development, 10% industrial, 8% each condominiums and hotels/motels and 4% other. The portion of investments in land development and condos (together some 20%) represents the riskiest areas of the portfolio. At Mar. 31, 34% of the entire portfolio floated with either the prime or the commercial paper rate. At year end, this trust had seven loans for $18.3 million in non-accrual and five properties for $5.9 million which it had acquired through foreclosure. The total represents 9.6% of the portfolio. Of the seven loans in non-accrual, five were these land development loans: $5.3M in land near Fort Lauderdale, Fla. which the trust has now acquired; $700T in land in North Palm Beach, Fla. on which the trust has started foreclosure; $3.1M in land in Greensboro, N.C.; $600T in land in Omaha, Neb. on which the trust has begun foreclosure; $2.7M in developed land in Austin, Tex. where the trust is working with the borrower and is being paid on a cash basis. The other two non-accruals are a $5.0M loan on a nearly completed shopping center in Tucson, Ariz. which is in foreclosure and a $1.2M condo loan in Minneapolis acquired in Feb. and sold at a loss with NML providing financing via purchase money mortgage. The five acquired properties consist of two small office buildings in Columbus, O. which are 75% and 60% leased and providing a 6-7% return; an apartment in Denver which is 70-75% leased and providing a modest cash return; an apartment in San Antonio, Tex. on which the trust had a second mtg. and is at present under breakeven; two land deals, one in Minneapolis and one in Calif.

Financing: This trust is funded 36% by capital and 64% by non-convertible debt. The $94.9M in capital is 97% equity with 4.76M shares and 3% in 6% convertible subordinated debentures. Debt of $171.2M is 39% in short-term bank lines, 29% in long-term bank loans, 17% in commercial paper, 6% each variable demand notes and variable rate senior notes and 3% mtg. Of total fundings, 59% float with market rates. During the Mar. qtr. the trust increased its bank lines by $20M bringing total lines to $123.5M with 15 banks. Its commercial paper, rated P-1 by Moody's and F-1 by Fitch, is currently sold through Lehman. Commercial paper has been selling well lately and is now up to $60M with rates of 7-7¼%. Sponsor: The Northwestern Mutual Life Insurance Co., one of the largest U.S. life co. Results & outlook: The Mar. qtr. was hurt primarily by a large addition to the loan loss reserve amounting to $0.19/sh. Problem investments may increase in the near future since some 13% of the portfolio (other than problem loans already reported) are being closely watched. The trust has recently announced that it will be adding $600T ($0.12/sh.) to its loan loss reserve each quarter. For these reasons we do not expect near term results to improve substantially. The shares do retain their No. 3 ranking based on long-term earnings and dividend improvement. (VCK)

FIDELCO GROWTH INVESTORS (9¼--ASE--FGI) FY Nov. 30

Quar.	Port.	Port.Yld.	Non-earn.Inv.	EPS Prim.	Div.	-Price range-	-Yld.range-
5/74	$123.5M	13.07%	6.7%	$0.68	$0.64	$17.88-13.25	19.3-14.3%
8/74	122.7	14.66	5.8	0.63	0.60	13.88- 6.63	36.2-17.3
11/74	129.9	12.35	12.4	d0.36	0.00	9.38- 3.25	0.00
2/75	130.9	11.49	11.3	0.40	0.36	11.25- 4.00	40.0-14.2

d-deficit

Portfolio dynamics: The portfolio increased 13% over the past year but leveled out in the past quarter. With unfunded commitments only $30 million (the trust made no new commitments for over a year) expectations are for the portfolio to shrink $15-20 million, 12-15%, over the coming year. The portfolio is balanced by category, the 38% long-term sector breaking down 15% senior mortgage, 4% junior, 9% wrap-around, 3% land purchase/leasebacks and 7% land development; the 61% short-term sector breaking down 6% construction with takeout, 28% construction without takeout (condos), 2% junior construction, 7% senior mtg., 4% junior mtg., 9% land development and 5% undeveloped land. Owned real estate is 1%. Project type breaks down 29% condominiums, 13% apartments, 12% land development, 11% hotels & motels, 5% residential devel., 8% undeveloped land, 6% mobile home parks, 4% office buildings and 10% shopping centers, medical, commercial and other. Locations cover 18 states concentrated 34% Pennsylvania, 24% Florida, 9% New Jersey, 6% California and 5% Maryland. Of the total portfolio, 58% floats with market rates. Non-earning and problem loans total about $13.65 million, over 11% of portfolio. Last quarter, the trust foreclosed on a $520T partially completed townhouse condo, Norristown, Pa. It is under sale agreement with the trust providing financing. It foreclosed a mobile home park in Modesta, Cal., $754T mortgage. A partially completed apartment project in San Antonio, Tex. was in foreclosure with a $2.23M loan. Undeveloped land in Atlanta, Ga. was in foreclosure with a $970T participation. A motel in Grand Rapids, Mich. was in foreclosure with a $1.9M loan. Undeveloped land for an unstarted hotel in Philadelphia was foreclosed with a $661T loan. Land for an unstarted condo in Washington, D.C. was foreclosed with a $808T loan. Partially developed land for an apartment in Philadelphia has two loans for $553T non-accruing. Undeveloped land in Stamford, Conn. has a $1.36M loan non-accruing. A $1.15M loan on a merchandising mart in Denver, Col. is non-accruing. Two loans for $938T in Scranton, Pa. subject to a $1.1M first mortgage are non-accruing. Undeveloped land in Cherry Hill, N.J. has a $866T loan non-accruing. An apartment project in Lancaster, Pa. has a second mortgage for $235T non-accruing. A substantially completed townhouse condo in Bryn Mawr, Pa. has a $680T loan non-accruing. Non-earning assets appear to be stablizing.

Financing: The trust is financed 28% capital and 72% non-convertible debt. Capital of $39.5M is all equity with 1,580,000 shares. Debt of $101M is 20% short-term bank debt, 46% commercial paper and 35% term which floats with prime. Thus, 72% of funds float. As the portfolio diminishes, short-term debt will be reduced. Sponsor: Fidelcor, holding company whose subsidiaries include Fidelity Bank of Philadelphia, a major regional bank, and Latimer & Buck, mortgage banker. Trefoil, another subsidiary, owns 5% of the trust's shares. Results & outlook: The Feb. quarter returned to profitability and the May qtr. should be at least as good, probably a little better. The second half may continue this rate as problems appear under control. Problem projects under construction are over 80% completed but land connected problem loans will take a while under current circumstances. Another change occurred in top management but does not look significant now. The shares are speculatively attractive for high current income, 17%, and possible further recovery toward book value of $24.62 as decent profit levels appear to have been established. (BS)